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The
**ECONOMIC
DIGEST**

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The
ECONOMIC DIGEST

AUGUST 1950

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Joint Editors: Sir Geoffrey Bracken K.C.I.E., C.S.I., H. S. Goodwin

SEEN IN PERSPECTIVE

European or Atlantic Union?

By GRAEME DORRANCE

ONCE again the cry that we must "federate or perish" is being raised. In this article no attempt will be made to ask if these are the real alternatives. Rather the question will be asked: "Who must federate: Europe or the Western World?" There are certain prerequisites before any form of union can have meaning:

1. It must include people whose basic outlook on life is similar.

2. It must make its members stronger in union than they are separate.

3. It must be able to exist as an independent body.

The peoples of Western Europe are the repositories of a great body of culture which can perhaps be summed up in the words "Roman," "Holy" and "Imperial," and which has been developing since the time of the Caesars. In addition they have contributed more than their fair share to the modern ideals which can best be described as "liberal."

There are, however, many ideals upon which they are divided. On the political side one need only mention the different views held by

Englishmen and the Continentals with regard to coalition governments or to the proper rôle of judges both during a trial and in the structure of the machinery of state.

On the economic side it does not appear that the ideals behind such phrases as "The New Deal" and "The Fair Deal" have yet taken as firm a root on the Continent as they have in England. Therefore while there is much to unite Europe there is also much to divide it.

But the New World is equally the repository of Western European culture. It can be argued that because these countries have carried out an assimilation process, they are even more the home of *European* culture than any of the European nations, with their strong attachment to their distinctively *national* cultures. In addition, from the British point of view, the United States and Canada hold basically the same anti-syndicalist ideals of social justice which today prevent us from entering fully into many Continental proposals for economic integration.

Much of the current discussion is inspired by the realisation that

"united we stand, divided we fall." But is it true that Britain without a single Communist Member of Parliament, and France with almost 40 per cent. of its Deputies Communist, are weaker in independence than they would be if united and their government had to placate the Communist 20 per cent. of its Parliament? Is Britain today weaker as an independent economic force than it would be if joined politically in Western Europe with heavy pockets of unemployment in Germany, Italy and Belgium? These questions must be answered by all proponents of a Western European union.

And yet when one looks at an Atlantic Union these problems tend to become of secondary importance. The need of Europe for dollar aid is only too painfully evident. Moreover, the North American interest in a strong and stable Europe is probably almost as great, if not equally apparent. Twice in the last half century America has deemed it in her interest to intervene in Europe to preserve its independence from anti-libertarian aggressors.

The need is just as great today. If all Eurasia were to surrender to Communism during the next quarter century, the final preservation of "the American way of life" would be more difficult. And if Europe remains divided and completely independent of the New World, such a prospect is not impossible. But if an Atlantic Community is evolved, such a development becomes remote.

The preservation of liberty is not possible with guns alone and cannot be limited to the Atlantic area. Throughout the world we must prove that the Western Way is more attractive than any substitute. This can only be done if it is possible to overcome poverty, wherever it may

be found, and at the same time demonstrate that liberal values are worth preserving. In the immediate future this action requires the investment of American surpluses in useful projects.

On the other hand, all Americans will remember that when England undertook this rôle in an earlier age, she did it in such a manner as to bring about the American Revolution of 1776 and the Canadian Rebellion of 1837. By 1945 she had evolved an outlook which kept India and Pakistan voluntarily within the Commonwealth. This experience must be drawn on if United States aid is to yield a dividend of thanks instead of anger. Together the New World and the Old can bring a new future to the Ancient World: acting independently they may well fail.

Towards Independence

As yet there has been relatively little specific action towards European Unity. The only real developments have been centred in the Organisation for European Economic Co-operation and the Brussels Pact. O.E.E.C. grew out of, but is only based on, the distribution of Marshall Aid, and the Fontainbleau military organisation is largely dependent on United States armed assistance.

This dependence on overseas aid must not be forgotten. We must not count on continued United States generosity. We must aim for an independent federation, not aspire to the status of a United States colony. Nevertheless developments to date must raise doubts regarding the possibility of Europe being able to bring and develop without external aid; so long as Britain has received assistance from America she has been able to contribute to European reconstruction.

without it, she could not. It is doubtful whether Europe alone could be "viable," but there is some hope that an Atlantic Union would be complete.

An Atlantic Union may be essential if the world we hope for is to survive: a European union may be a delusion. If we try first to unite Europe and then to expand to include the New World, we may only succeed in building up a new group of vested interests. We should then have to put aside the new sovereignties instead of those recently dis-

carded. The battle for one Union having been won it would be harder, not easier, to fight for a new one. It seems that we must seek an Atlantic Federation or none at all.

This note has been restricted to a very limited though important subject. Apart from Canada, no mention has been made of the position of the British Commonwealth. No mention has been made of the very real problems raised by an Atlantic Union. It is hoped to discuss some of these questions in a future issue of THE ECONOMIC DIGEST.

SALIENT FIGURES OF THE MONTH

			Latest Month	Increase (+) or Decrease (-) on a Month Ago	Increase (+) or Decrease (-) on a Year Ago
"BUSINESS" INDICES					
Production	(1946=100)	*132.8	+ 0.8
Purchasing Power	do.	*107.3	+ 0.7
MANPOWER					
Total manufacturing industries	...	(thousands)	8,424	+ 3	+199
Cotton spinning and weaving	...	do.	332.0	+ 1.5	+ 8.8
Coal (on colliery books)	...	do.	700	- 2	- 24
Reg. unemployed (G.B.)	...	do.	314.7	- 14.3	+ 10.5
PRODUCTION					
Index of production	...	(1946=100)	*135	- 8	+ 11
Coal (average weekly output)		(thousand tons)	4,377	+395	+127
Steel ingots and castings (do.)	...	do.	319	- 5	+ 3
Cotton yarn (do.)	...	(million lbs.)	* 12.5	- 1.5	+ 0.9
Woven wool fabrics (do.)		(million linear yards)	* 32.54	- 9.19	- 0.89
Passenger cars (do.)	...	(thousands)	10.70	+ 1.12	+ 2.80
Commercial vehicles (do.)	...	do.	5.55	+ 0.50	+ 1.18
Permanent houses completed	...	do.	17.03	+ 2.17	+ 0.16
TRADE					
Value of imports	...	(£ millions)	†201.7	- 27.0	- 36.9
Value of exports	...	do.	†147.5	- 40.9	- 34.6
Freight train traffic	...	(million tons)	5.62	+ 0.37	+ 0.10
Retail sales	...	(1947=100)	141	+ 10	+ 13
FINANCE					
Currency in circulation	...	(£ millions)	1,258	Same	+ 6
Deposits in London Clearing Bank		do.	5,847	+ 4	- 25
Provincial cheque clearings (av. working day)	...	do.	6.55	- 0.13	+ 0.47
WAGES AND PRICES					
Weekly wage rates	...	(1947=100)	100	Same	+ 2
Retail prices	...	(1947=100)	114	Same	+ 3
Wholesale prices	...	(1930=100)	† 255.8	+ 1.3	+ 23.9
Basic materials	...	do.	† 355.9	+ 7.1	+ 59.6
Intermediate	...	do.	† 285.2	+ 2.4	+ 27.3
Manufactures	...	do.	† 232.0	+ 2.0	+ 8.5
Import prices	...	(1938=100)	132	+ 1	+ 17
Export prices	...	do.	119	+ 1	+ 6

* April † June. All other figures refer to May.

Towards the Atlantic Community...

By LIONEL ROBBINS

Western Europe integration—the aim of the United Europe Movement and of the U.S. Economic Co-operation Administration—would obstruct the more important and more practicable Atlantic community which is implied by the Atlantic Defence Treaty

ONCE it is realized that nothing short of the Atlantic Community is a suitable unit for the joint organization of foreign policy and defence, any presumption in favour of supra-national economic organization on a lesser regional basis tends to lose much of its substance. In particular, it becomes very doubtful whether it is worth while trying to build up specifically Western European organizations, especially if these are on a restrictive basis.

Let us look for a moment at the arguments in favour of such measures. Undoubtedly the most plausible relates to just such a position as that in which the Western European countries (among others) have found themselves recently—a position of acute unbalance with some other area or group of areas, in this case the dollar area.

In such a position it may be argued that if measures are adopted which restrict trade all round, trade between members of the group which might otherwise be usefully carried on will be prevented and unnecessary dislocation caused. Hence the justification for discriminatory measures and the consolidation of regional arrangements.

At first sight, the argument is plausible. And it may be admitted that, in such a position, restriction

of imports from the third area, while imports between the areas with the passive balances continue, seems a sensible course. But, before this is built up into an argument for discrimination and regionalism, the diagnosis needs to be carried further.

What is the fundamental reason for the persistence of disequilibrium of this sort? Obviously the systems of internal prices and costs have been out of relation to existing rates of exchange. We need not investigate here the question whether this disharmony arose because of external misfortune or internal inflation—in the case of most European currencies which are in trouble it has pretty obviously been a mixture of both—the fundamental point is that exchange rates have been inappropriate.

Therefore, rather than clutter up the channels of trade with a series of discriminatory trade restrictions, easy to impose but almost impossible to manage scientifically, and liable to cause all manner of friction and disunity in international political relations, surely, in such cases, the appropriate remedy is adjustment of exchange rates.

This is a measure which need involve no special regional organization. The adjustment of each rate can be related to the internal con-

ditions of the area concerned. It is true that, if such adjustments are not to give rise to retaliation and competitive depreciations, some international organization is needed. But for this purpose, in the nature of the case, what is needed is not the regional organization of those who need to depreciate but a comprehensive organization of those for whom depreciation is necessary and those for whom it is not—the very reverse of economic regionalism.

More ambitious in its claim, and more widespread in its appeal is the argument which evokes the long-run economic advantages of the creation of wider markets. Let the countries of Western Europe create large enough markets, it is said, and the advantages of large-scale production will then be available to increase their productivity.

Not "Free Trade"

It is important to observe that the argument here is not the same as the argument for freer international trade all round, although it is often confused with it. There is in fact an important difference. From the international point of view, a general lowering of obstructions to trade has a single significance: it permits greater international division of labour. But the creation of larger economic regions, a preferential area or a customs union, necessarily has more varied effects: it permits greater specialization *within* the area but probably involves less specialization *as between* this area and other parts of the world.

A European Customs or Preferential Union would involve freer trade within its borders. It might well involve greater restriction on trade between its constituent members and other parts. The problem

of deciding on its desirability is, therefore, in the nature of things, more complex than the problem of deciding on the desirability of a general lowering of obstacles to trade. The argument for the Customs Union is not just the argument for freer trade.

Probable Results

Now it may be conceded freely that if it were possible, on the basis of a low unified tariff, to create a free trade area over the whole of Western Europe, that would probably carry with it important advantages. But a development of this sort is extremely improbable. Even if we abstract from the difficulties due to the absence of a common political authority, it must surely be agreed that the more probable outcome would be a tariff schedule and quota regulations which, for many of the constituent countries, would involve higher rates and stronger obstacles against imports from the outside world than those which prevailed before. In these circumstances, the benefits of such an arrangement would be much more dubious; and compared with other methods of bringing about a general lowering of obstacles—of which more hereafter—its attractions might well disappear.

Tangible Dangers

But this is not all. When we consider such measures in relation to the grand objective—the consolidation of the whole Atlantic Community—it is easy to see that a restrictive regionalism within that Community may not only have very faint positive advantages but may also carry with it certain obvious and tangible dangers.

Arrangements which mean that, within that Community as a whole, goods from some areas suffer disadvantages in trade in comparison with goods from other areas, are extremely likely to breed friction and misunderstanding. Arrangements whereby, in the commercial regulations of Western European markets, American and Canadian goods have permanently to be discriminated against, are likely to cause trouble.

Atlantic Community

These things may be tolerated now when they can be represented as emergency measures. But, if they are made the basis of long-run policy, they will be resented. To pursue unity in the spheres of foreign policy and defence, and disunity in the spheres of economic policy does not seem to be a sensible procedure.

If the above analysis is correct, it might seem to be a proper inference that the appropriate policy for the members of the Atlantic Community would be the adoption, not only of unified foreign policy and defence arrangements, but also of unified economic arrangements as well. Why should there not be a Customs Union and a common currency not for Western Europe only, but for the entire Atlantic Community?

A Workable Unit

The idea is an attractive one, although this would not necessarily be the creation of freer trade for the world as a whole, yet it would cover a sufficiently large proportion of the planet to constitute a very workable economic unit; and if it would serve to strengthen the basis

of political and military collaboration, there would be almost everything to be said in its favour.

But the proviso is all important. Would it in fact strengthen the movement to unity in the sphere of foreign affairs and defence? In present circumstances, this is very doubtful; indeed, a contrary tendency is to be suspected. For federation, or near-federation on the American model (which is, of course, what in fact we are talking about in this context) implies the will to relatively liberal economic policies on the part of the constituent States.

It may be a wrench, a blow to national *amour propre*, to surrender the right to regulate inter-state trade and the volume of credit. But it is not an intolerable loss. At the present day, however, the policies and outlook of the various States of the Atlantic Community are not all liberal in this sense. In various countries, the people are resolved to carry out experiments involving a greater degree of control of the economic process.

Reservations

I suspect that, if people were asked, as part of the process of the formation of the Atlantic Community, to surrender their autonomy in economic affairs to the extent involved by the creation of common commercial and common monetary arrangements, the effect would be, not to make them more willing to co-operate, but less. If this is true, it would be unwise to couple the present proposals for unification at the defence and foreign policy level with proposals for such far-reaching changes in arrangements in the economic sphere.

But does this mean that there is nothing to be done about international economic relations—that within the Atlantic Community, as outside, there must continue to prevail an international anarchy, the inhabitants of each national area behaving as a law unto themselves?

By no means. Such a state of anarchy would carry with it tendencies as eventually dangerous to the Community as a state of enforced uniformity. It is not true that economic nationalism has been the major cause of war and international friction in modern times. But it is true that it can be an important aggravating factor.

The pursuit of policies of unregulated exclusion and restriction on the part of the constituent States could play eventual havoc with the stability of any loose political association such as that which is in contemplation here. What is needed, therefore, is neither enforced uniformity, nor anarchy, but rather agreement so to conduct the affairs of the different constituent States as to avoid the more flagrant forms of beggar-my-neighbour policy and to conform to generally accepted codes of commercial and financial behaviour.

But what is this but the general objective of the international economic organizations which have already come into being or which are waiting to be adopted—the international financial organisations, the Fund and the Bank, and the proposed International Trade Organization. So far, however, it would be idle to pretend that they have had the success or influence which was hoped at the time of their inception. The progress which has been made towards the achievement of conditions in which the common codes are observed and the com-

ATLANTIC UNION

Nearly 18 months have passed since the North Atlantic Treaty was signed by the United Kingdom, the United States, Portugal, Norway, the Netherlands, Luxembourg, Italy, Iceland, France, Denmark, Canada and Belgium. The present trend may well lead to some form of Atlantic Union, and for this reason we make no apology for printing two articles (by Mr. Dorrance and Professor Robbins) on the subject.

Editors, E.D.

mon facilities used, as it was hoped they might be used, has been disappointing. Why is this?

Partly, no doubt, it is because we have been half-hearted in these matters; there are at least some of us who do not wish for a liberalization of international economic relations.

But partly it is due to the fact that the planning of these institutions and codes did not pay sufficient attention to the formulation of policies for the transition from the war-time conditions amid which they were thought out to the full peace-time conditions in which it was hoped they would work. It is true that the various statutes contain, almost *ad nauseam*, clauses relating to exceptions permitted during this period. But there was no real plan for easing the transition through. The result has been that through this actual transitional period, courses very ill-co-ordinated with the aims of long-term policy have been pursued.

The countries which have been in difficulties have grasped at any straw which they thought would save them; and the countries which were not in difficulties, having no settled plan, have not given consistent guidance. This applies even, I venture to say, to the Marshall Plan itself. It is not always easy to trace any very close connection between the various policies of the E.C.A. and the broad objectives of the State Department. And even in the sphere of broad objectives neither the United States, nor any of the other Governments concerned, has a record of obvious consistency.

If this is true, it has a very important bearing on our conceptions of appropriate future policy. If we accept as our aim the defence and advancement of the Atlantic Community, then this must be the touchstone of all inferior aims of policy. If we agree that, in the long run, this aim is best served, in the economic sphere, by the declared objectives of existing or projected

international organizations, then the criteria of day-to-day policy are established: we must judge the various proposals which are put forward for daily action according as they advance these ends.

If this is agreed, then I fancy that it involves some considerable change of emphasis in many economic policies now under discussion: less emphasis on the removal of specifically European obstacles, more emphasis on the removal of obstacles wherever they occur; less emphasis on local convertibility, more emphasis on convertibility in general; less emphasis on global European aid, more emphasis on the solution of the specific problems of the disequilibrium of particular countries.

This may mean a considerable change in habits of mind on both sides of the Atlantic. But if the argument of this paper is correct, it is not for that reason out of line with the main objective.

Big and Small Businesses in U.S.A.

THREE million business enterprises in the United States, exclusive of agriculture and the professions. The large majority of these, probably almost three fourths, are very small, employing not more than three workers. About one fourth employ from three to 100.

Fewer than one per cent employ more than 100, and only about 6,000 employ more than 500. These divisions, which are of course

arbitrary, could be shifted or subdivided almost indefinitely. All but the smallest concerns would look "big" to some, and all but the largest would look "small" to others.

There is of course a continual movement of individual companies from one size-category into another, but the relative number of companies in the different categories have remained fairly constant over the years.

Sterling Balances and Pound Convertibility

By ROY HARROD

*Sterling could be made a relatively scarce currency
in good standing outside the dollar area.*

*Demand would become greater than
supply and convertibility
would follow*

IN the question of sterling convertibility it is not only the self-interest of British individuals that we have to consider, but also the self-interest of those many thousands of persons throughout the world who do or might hold sterling for their various commercial or financial purposes.

We have set up a system by which those who hold sterling do so reluctantly—either because they are unable to dispose of it or because there is a certain basic minimum which they must have for trading purposes. What confidence can there be in a currency of which there are numerous different kinds, each of which may be subjected to new and unpredictable regulations? Thus we have set all the forces of world-wide private self-interest working against us.

If we were a self-sufficient economy, we might snap our fingers. But with our dependence on the world economy, this has been a fatal error, and I dare predict that we shall continue to flounder until we re-establish sterling as a single currency that can be legally disposed of by any non-resident holder at his own will and pleasure. This is the hub of the matter.

The main objective in restoring the convertibility of sterling would be (1) to enlist on our side the self-

interest of the countless traders and financiers the world over by making sterling once again an acceptable currency, and (2) to re-introduce a mechanism for restoring our trade to equilibrium. We are faced with the extraordinary fact that capital has been flowing out at an unprecedented rate, despite British insolvency, and this flow is the principal obstacle to rendering sterling convertible. Meanwhile, the inconvertibility of sterling undoubtedly intensifies this flow, and thus we are in a vicious circle.

The movement of capital must be considered under four heads: (i) releases of sterling balances, (ii) drawing down of sterling balances, (iii) authorised schemes of capital expenditure in the sterling area, and (iv) action of private individuals in taking their capital out of Britain.

(i) I assume that the sum-total of annual repayments would fall far short of the £205 million a year represented by our favourable balance of trade with the non-dollar area in the first half of 1949. What we have been paying in interest is included in our current account. In a funding arrangement interest constitutes the greater part of the payment in the early years. Consequently, it should be possible, even assuming that we grant very gener-

ous terms, to arrange for the repayment of capital at a rate well within our means.

This is contrary to what is often said, namely, that our ex-war debts are an insupportable burden that must sink us. That is only true if we go on repaying them at the fabulous rate of recent years. I infer then, that an orderly repayment of the debt would not be inconsistent with a convertible sterling.

(ii) On the working balances we should adopt normal banking procedure and be prepared to pay out gold on demand without limit. This is the purpose and should be the sole purpose of our gold reserve. A reserve is not intended to finance a running current deficit. Once it was clear that we were steadily paying out without question or cavil, confidence in sterling would revive by leaps and bounds.

Is There Enough Gold?

If this experiment of paying gold on the working balances is to be adopted, we have to think very carefully whether we have enough gold to carry the experiment through to a successful conclusion. In the first place it must be emphasised that the working balances are at present far too large. They are stated in Cmd. 7915 (p. 12) to be nearly £2,000 million. This must be compared with the £475 million outstanding at the outbreak of war, which may itself have included some 'hot money.'

A far greater proportion of the 'sterling balances' ought long since to have been blocked; the fact must now be faced that, if we are to put sterling on a good basis, we must not only cease to make *ad hoc* releases, but also transfer some part of the £2,000 million into blocked

accounts, to be released only in accordance with long-run agreements for repaying these debts.

Let us suppose the working balances reduced to a reasonable figure. Have we enough gold? Normally a banker does not have to have his sight liabilities backed by gold to 100 per cent. The existing circumstances are not normal. Confidence in Britain has been so undermined in recent years, that, at the inception of specie payments, there might be a tremendous run upon the balances as in 1947; but it is to be remembered that in that year we had a heavy adverse balance on current account.

Back to America

It may be that in view of this possibility, the British gold reserve is not now sufficiently great. I believe that if Britain was genuinely resolved to make sterling convertible once more, and tackled the problem of the blocked balances manfully, she could get a line of credit from the Federal Reserve System to underwrite the convertibility of sterling. The credit should be sufficient in conjunction with the British gold reserve to pay out gold on every penny of the working balances.

Manful Experiment

But Britain should undertake not to draw on the Federal Reserve line of credit, until she had used every penny of her own gold. In such circumstances, it seems most unlikely that she would have to draw upon the Federal Reserve line of credit at all; indeed after the passage of some months, when it had been seen that she was carrying through the experiment manfully, there is every probability that her own gold reserve would be greatly increased.

(iii) Next we have to consider authorised capital expenditure in the sterling area. This must be cut down so that it is well within the margin of what we can afford. An individual man of business who authorised capital expenditure so far beyond his resources as Britain has done, would have found himself in trouble with the law long since.

Building Up Capital

Britain, if she manages her affairs wisely, may have a great part to play in developing backward regions of the sterling area. She will never play that part in fact unless she observes the ordinary rules of financial prudence, has patience, and builds up her capital—like an ordinary man of business—before launching out.

(iv) Finally we come to the most difficult question of all, the outward movement of capital involved in the purchase by British individuals of assets in the sterling area outside the U.K.

One example of this process is the provision of equipment from British factories (which figures in the ordinary way as an 'export' in our trade returns) against shares in the affiliate abroad which buys the equipment. In other cases individuals take their money out of Britain because they have more confidence in other parts of the sterling area. In certain cases they take it there, with the intention of getting it further, in one way or another.

Stopping the Leaks

This 'flight of capital,' as we may properly call it, must be a fatal obstacle to the introduction of convertibility and to any restoration of Britain's external position.

The remedy lies along one of two lines, or perhaps one should say along both, but one or other may be more strongly stressed, and this is the whole crux of the matter.

One line is to increase the restrictions on the movement of capital to the sterling area. One might, as an extreme measure, make it as difficult to take capital from the U.K. to the sterling area outside the U.K. as it is to take it from the U.K. to the United States. This would tend to disrupt the unity of the sterling area and would have disastrous consequences.

Incentives for Business

The other line is to make business prospects in the U.K. herself more favourable, so that, on balance, there would be no strong desire by individuals to take their money away. Some might even be inclined to repatriate their capital. Money seeks profit, and if there was good prospect of profit in Britain, money would not desert us.

Final Strength

Having thus explored the capital account, we must now turn our attention back and give one final scrutiny to the income account. Our argument has been that if the outflow of capital were confined to quite modest dimensions, sterling would be a relatively scarce currency in good standing outside the dollar area. The demand for it would be greater than the supply and it could therefore be made convertible. Convertibility would then turn all the motives of self-interest in our favour and this would lead to an immense strengthening of the sterling position.

Counterpart Funds

By ALEX N. McLEOD

*How they are generated by Marshall Aid and
their bearing on economies of the countries
that get Marshall Aid*

LOCAL currency proceeds ("counterpart funds") are the proceeds derived by a government or a central bank from (a) the sale of foreign goods or foreign exchange received as a gift, grant, or loan to the national authorities, or (b) the use of exchange reserves. Thus they are the financial counterpart of the import surplus so financed.

When supplies are given by one country to another in order to assist in reconstruction or development after some major disturbance (such as a war), the recipient government may, quite appropriately, sell the supplies to its nationals in exchange for local currency, however improper it may seem at first sight that what has been received as a gift or grant should be sold.

Presumably the donor country intends the gift or grant for the general benefit of the recipient country, not for particular individuals, and presumably the public has adequate funds in local currency with which to buy the goods. Indeed, if there is active or latent inflation in the recipient country, the public has more than enough money.

The sale of the goods for local currency and the accrual of the proceeds to the government are simply means of distributing the goods among users and at the same time retaining the benefit of the gift for the nation as a whole. In the past,

certain UNRRA and Lend-Lease supplies (especially food) have been disposed of in this way, and the same is now being done with the supplies provided under the European Recovery Programme.

For the sake of simplicity and concreteness, let us discuss the matter in terms of international grants and loans, such as those under the European Recovery Programme.

In its essence this programme is an undertaking by the participating European Governments, with outside (mainly United States¹) assistance in the form of grants and loans, to expand their own productive capacity according to an agreed programme. The beneficiaries undertake to make the fullest possible use of their own resources, including efforts to achieve internal financial stability and to expand international trade. On the basis of this programme, the needs of Europe for outside aid are calculated.

Expressed in real terms the objective is relatively simple to understand, however difficult it may be to achieve: it is to use the economic aid made available so as to raise the productivity of the recipient nations in the most effective manner. Fundamentally, ERP is a plan to provide a net addition to the real resources available from cur-

1. Aid from the United States is administered by the Economic Co-operation Administration (E.C.A.).

rent production in the recipient countries, thus making it possible to expand either private consumption, current governmental services, government (or government-controlled) investment, or private investment.²

In general, the greater part of the additional resources should be used for investment, since the purpose of the programme is to assist the recipients to reach a high level of production more rapidly than would otherwise be possible. In practice, however, it is quite impossible to determine the actual net effect of the import surplus, because in all likelihood every aspect of the community's use of real resources is affected by ERP aid.

No New Projects

Without this assistance it would undoubtedly have been necessary to reduce the volume of imports, perhaps by as much as the amount of ERP aid. In some countries, investment would have had to be sharply contracted; in others, consumption would have probably suffered further restriction. On the whole, however, it is not unreasonable to assume that the volume of investment is being sustained at a level that exceeds, by the amount of ERP aid, what it would otherwise have been.

While the policy implications of ERP aid are clear enough in real terms, the proper integration of local currency proceeds into general financial policies must be given careful attention. The first and most important point to recognize is that the accrual of counterpart

funds does not make possible the undertaking of new projects that were not part of the original programme; they are simply the financial reflection of real resources already received and integrated into the economy.

Effects on^{*} Inflation

Secondly, when goods are received from abroad as a result of foreign aid and are sold within the country for local currency, a net deflationary (or anti-inflationary) effect is produced; for, unlike the case of an additional flow of goods arising from expanded local production, no equivalent sum is added to the income of the public in the form of wages, rents, etc. Local currency proceeds thus have a direct bearing on the inflationary situation, and their use must therefore be continuously co-ordinated with budgetary, monetary, and price policies.

The most effective integration of local currency proceeds with other financial policies in any given country will depend to some extent on the nature of the inflationary situation. If there is still *continuing inflation* (whether it is allowed to work itself out at once in the form of rising prices, or is kept latent by economic controls), the obvious use for local currency proceeds is to substitute them for inflationary financing.

Other Functions

If there is only *latent inflation* in the country, and if it is *not increasing*—that is, if excess liquid resources exist but are stable or declining—the local currency proceeds may best be used to reduce the money supply by repaying debt held by the banks.

2. It should be noted that the country's real income may be increased by more than the equivalent of the E.R.P. aid. For example, production might otherwise be hampered by the lack of certain key materials or equipment obtainable only in return for a currency in particularly short supply in the given country.

Finally, the country may be free of inflation in any form. In such a case, funds equivalent to the accumulating local currency proceeds must be returned to the community, or the cash balances of the public will fall short of what is needed to finance production and the consumption and investment of the available supply of goods.

Import Surpluses

As far as the day-to-day decisions of individual consumers and businessmen are concerned, the existence of local currency proceeds has no direct effect whatever. The consumption and investment of the community are adjusted by the public on the basis of income, the level of output, and other factors, modified perhaps by government policy relating to consumption and investment.

The financing of an import surplus by ECA does not act directly to influence the desire of the public to consume and invest. The flow of imports is continuously integrated into the economy in the usual way, just as if the goods were paid for by exports. Only when the aggregate supply of available goods is considered does it become clear that the behaviour of the community would have had to be different without aid such as ECA is now making available to Western Europe.

Private Investments

To the extent that private firms and individuals undertake investments, they have two problems: to acquire the real resources necessary for the investment, and to find financing for the investment. The real resources available to the community for investment are deter-

mined by production, the import surplus, the amount of real resources that must be used for consumption and for government outlay, and the country's policy in restraining aggregate investment to prevent inflation.

The import surplus means that more real resources are available to meet these various demands, and therefore makes possible increased real investment. As far as individual persons or business firms are concerned, however, they know only whether or not the goods are to be had, not how they became available.

In the aggregate it is clear that the community can undertake only as much investment as would have been possible without foreign aid, supplemented by the additional investment foreign aid permits.

This analysis may conveniently be concluded by a summary statement of the uses to which the local currency proceeds accumulated under ERP have in fact been put.

How Funds were Used

As of October 31, 1949, a sum equivalent to 4,056 million dollars had passed into the local currency accounts subject to the control of the the various countries. The total amount released up to same date was 2,537 million dollars. Of this, 1,069 million dollars was released for debt retirement purposes, 1,307 million dollars for various undertakings that may be regarded more or less as investment—promotion of production, reconstruction projects, and development of strategic materials—and the remainder for other purposes, mainly relief.

The use of these funds for specific investment projects calls for some comment. If these invest-

ments are new projects entered into in the belief that the local currency proceeds represented free resources, then they have really been financed by inflationary means, to the extent that by charging them to local currency proceeds the anti-inflationary effect of these proceeds has been offset to an equivalent amount.

If, on the other hand, they repre-

sent merely an arbitrary linking of certain expenditures properly incorporated in the investment programme that ERP was designed to permit, they are merely examples of a relatively harmless but not very meaningful practice sometimes followed whereby particular expenditures are arbitrarily linked to particular receipts.

The Temptations of Devaluation

DEVALUATION is undoubtedly a tempting method for a Government to try. For it is easier to draft a bill of four lines than to organise efficient exchange controls, develop trade expansion services, induce thousands of manufacturers and traders to give up old routine methods, attract millions of foreign consumers, modify fiscal systems, establish a system of bonuses which weigh on the budget!

It is easy to understand how governments and parliaments allow themselves to slip down a slope, encouraged or soon forgiven by public opinion which is influenced by the small group of those who benefit by devaluation.

The economist should alert public opinion on the dangers of devaluation. It is useless because under the economic systems now in force it cannot succeed in restoring the desired equilibrium, and it is also dangerous because it increases monetary instability, troubles peoples' minds, increases unjustly the profits of a few, makes international exchanges more costly for the poor countries and sows international discord.

But the economist will only be listened to if he can point to another path. This can be no other than that of international economic co-operation sincerely aiming at improving the organisation of international trade.

HOW BRITAIN HELPS NON-BRITISH COUNTRIES

Britain has contributed £900 million in general credits, grants, and loans for relief and reconstruction in countries outside the Commonwealth since the end of the war, Lord Alexander of Hillsborough told the United Nations Economic and Social Council. The council was discussing methods of financing economic development of underdeveloped countries, and Lord Alexander appealed for other nations to help.

Still Small Voice of Liberalism

Europe Reminded of Classic Principles

*Forthright comment on controls,
planning and state intervention,
from the Bank for Interna-
tional Settlements*

At least three very difficult adjustments have had to be faced in 1949: a 30 per cent. fall in the prices of primary products on world markets; a business recession in the United States which brought the index for industrial production down by 17 per cent. between November, 1948 and July, 1949; and devaluations of currencies in countries responsible for two-thirds of world trade.

Unruffled by these and other upsets, production in Europe continued to advance at the high rate of over 6 per cent. per annum and agricultural output regained its pre-war level; budget deficits had no longer to be met by inflationary financing and the deficits in the balances of payments were compressed; with the exception of two or three countries in special circumstances, employment remained at high levels.

With all this went a steady liberation from the shackles of wartime controls, which found its expression in courageous decision by the O.E.E.C. Council in Paris to liberalise trade as part of the European Recovery Programme.

The same spirit was at work in each particular country, irrespective of the political regime in power, rationing being lifted, more and more prices being freed from control, foreign travel being facilitated

and greater possibilities granted for the transfer of money, a number of currencies becoming practically convertible under conditions which permitted a certain increase of monetary reserves—in short, restrictions were eased in almost every field.

Increased supplies from domestic production and imports of foreign goods have provided the basis for these measures of liberation, with a psychological background in a revolt by the people themselves against controls and rationing. *It seems certain that, barring any grave calamity, there will be no turning back to the system of controls, now disappearing from land to land.*

This attitude of the people, which springs from ten years' experience of government supervision, has some important consequences. In the first place, it is no longer possible to contemplate solutions to current problems which would involve an intensification of the system of physical controls. While the war lasted, no country could avoid doses of inflation to mobilise the resources required and it was then essential that physical controls should be imposed in order to make the redundant supply of money as innocuous as possible.

But it is characteristic of a wartime economy that it eats into the

accumulated assets of the past and thus represents the reverse of economic progress. It would be an illusion to think that similar methods could usefully be employed in peace-time; attempts to replace an insufficient flow of genuine savings by some process of artificial credit expansion, or eternally to keep down rates of interest by a systematic open-market policy, will only produce a state of excessive liquidity in which the artificial addition to domestic demand will tend to increase imports and impair the flow of exports.

No Natural Balance

The result will be a persistent deficit in the balance of payments, which has to be met by real resources—through assistance from abroad or as a charge on the country's own reserves. The great drawback involved by such practices is that no natural balance will be reached, so that one critical situation after another will arise. It may be possible by a succession of expedients to put off the attack on the real problem for a time; but these problems will remain, and one day a halt will have to be called to the continuance of excessive investments, the creation of artificial income and reliance on foreign aid.

Risks of Budget Surplus

In these respects progress has been achieved, but there are still economies with difficult adjustments to make. And when it comes to determining the possible value of investments, *it must not be taken for granted that a budget surplus achieved by heavy taxation will always produce an addition to the flow of savings; for there is clearly the risk of a reduction in private*

savings—and then the ultimate effect may be a deadening of initiative and enterprise.

Were it possible to impose a full measure of control including administrative direction of labour, a system might be constructed which would be self-consistent and could thus be made to work without internal contradictions. But the kind of piecemeal intervention which has been in vogue in so many countries since the war has failed to afford any general guidance and it seems a sorry misnomer to refer to it as "planning."

The disappearance of physical controls in no way implies that the authorities should remain passive in the face of all the problems which wait for solution. A proper distribution of resources between home and foreign markets can be carried out through the working of the monetary mechanism, and a free and trusted currency will lead to an increase of genuine savings, furnishing the funds for further investments. Once money has been made sufficiently scarce in relation to available supplies, a multitude of troubles and problems vanish almost of their own accord; *the more freely money can be used, the more readily will it be kept.*

There is in our generation a great and understanding striving for security; let it be remembered that monetary security is a most valuable kind of security, benefiting all members of society and very highly appreciated by those who have once lost it. The year 1950, the mid-term of Marshall aid, is of outstanding importance, the wartime shortages having been overcome and exchange rates having been more generally adjusted to what may become their permanent levels.

Fortunately there is now a much

greater understanding of the inescapable connection between internal financial policies and the outcome of balances of payments, and also of the fact that exchange and trade restrictions may well curtail imports and yet fail to improve the foreign position (since the purchasing power which they confine to the home market absorbs goods otherwise available for export) and that in any case they tend to repel any voluntary influx of funds.

There is certainly a growing lack of belief that physical controls can master the problems either of dom-

estic trade or of the balance of payments, while it is the peculiar quality of freely functioning markets that they naturally tend to produce equilibrium and may be found to do so at less cost to the individual consumer and to society—provided, of course, that the more basic problems of economic balance have not been left in abeyance.

What will happen at the end of the Marshall Plan? Much depends on what is done in the remaining period of Marshall aid. Here it is only possible to point to a few of the main tasks:

SIX MAIN TASKS

(i) It was heavy government expenditure that provoked the war and post-war inflations and, though much has been done towards discarding inflationary methods of financing, the present level of public expenditure in many countries is still very high in relation to the national income, thus placing a most heavy burden on economic enterprise and drying up the flow of personal savings.

There are deficits to be covered in railway administrations, heavy charges in various branches of the central and local governments, and investment programmes essentially dependent on foreign aid. To overhaul the whole apparatus of public expenditure and revenue is a task that may have to be approached in different ways in different countries but can be neglected in none.

(ii) Few are the centres in which the money and capital markets are as yet in regular working order. There is a general move towards flexibility of

interest rates; it has been encouraging to find how often relatively small changes in interest rates have been sufficient to exert a considerable influence in the market, proving themselves very helpful towards a return to equilibrium.

But a capital market must be able to count on a steady supply of fresh savings. In this field too, it is necessary to examine what are the main objectives and to establish an order of priority; *among the most essential immediate tasks is that of putting the monetary machinery itself into working order, which also requires a reconstitution of monetary reserves.*

(iii) In the industrial sphere attention must not be focused exclusively on the volume of investment. Efficiency is largely the result of employing appropriate methods at the different stages of the production process. Relatively small firms can fill a useful place side by side with the large concerns. With the disappearance of sellers' markets, each

manufacturer must be more than ever concerned to produce what the buyer actually wants—and this involves problems which can hardly be solved without constant attention to the shifting of free markets. Moreover, it is obvious that the best protection for the consumer is greater freedom for imports, it being therefore necessary to synchronise the abolition of price control with liberation of foreign trade.

(iv) Much valuable experience has been gained as to the methods of affording greater latitude for foreign payments; it has been proved possible and useful to proceed step by step, beginning with a greater freedom of movement for bank-notes and progressing until free exchange markets have been re-established.

(v) In the economic field there are several international problems. Some of these are being considered by the O.E.E.C. organisation in Paris and the United Nations Economic Commission in Geneva; others are of even wider scope for a Europe vitally dependent on obtaining

foodstuffs and raw materials in trade with overseas countries and an additional supply of dollars through indirect trade.

In order that competitive sellers from European as well as other countries may give of their best, an expanding world market is required, and it is difficult to see how such a result can be attained without an increased outlet in the United States for more manufactured goods.

(vi) Another problem in the international field concerns the settlement of liabilities affecting the balances of payments. After the first world war, many illusions were entertained as to the amounts that could be transferred between different countries and continents, the neglect of economic realities being one of the factors contributing to the severity of the ensuing depression. It is officially recognised that certain similar questions now before us need study and it can only be hoped that this time they will be arranged in a way that does not unsettle the world economy.

CONVERTIBILITY IS PRIMARY OBJECTIVE

Europe has made considerable progress towards equilibrium in its balance of payments, the overall deficit on current account being reduced from 7.4 milliard dollars in 1947 to 2.9 milliard dollars in 1949. It is true that there is still a considerable deficit in the direct balance with the United States, recent progress being rather in relation to Latin America and south-eastern Asia. But Europe has a vital interest in regaining its old markets and resuming the traditional pattern of trade which, built up in the course

of a hundred years, may be taken to reflect the deep-seated needs of many economies. Such a return to tradition, however, requires the proviso that sales should be made increasingly in free markets, with settlements in internationally recognised means of payment.

To have to adapt the currents of commerce to compartments coinciding with particular currency areas or established by bilateral arrangements, or to grant credits and loans with the proceeds tied to purchases in specified countries, can

only lead to a distortion of foreign trade and payments.

In view of the importance of unhampered and all-round trade for the nations of Europe, *convertibility must be regarded not as a distant goal to be reached within a decade or two but as a primary objective to be attained within the few remaining years of Marshall aid.*

under conditions which, though different from those of twenty years ago, may hold out the hope of enduring settlements in an atmosphere of unquestioned monetary stability.

(NOTE.—Sir Otto Niemeyer, and Mr. Cameron F. Cobbold, of the Bank of England, are Britain's representatives on the Board of the Bank for International Settlements. Mr. Per Jacobsson is Economic Adviser.)

I.T.O. also Pleads for *Scaling Down of Controls*

IT might seem that the removal of restrictions will be a fruit of recovery, but is not to be regarded as a contribution to the cure. That would be a hasty conclusion, for many of the controls on trade, even though they may appear to be indispensable, have secondary effects which retard recovery. The existence of one control necessitates another, and if the first is removed the need for the second may fall away. Moreover, restrictions maintained by one country may aggravate the difficulties of others, so that the removal of any one restriction may lead to the abolition of many.

Doubtless, governments will decide to maintain many of the restrictions on their foreign trade until other measures and events have brought about a world situation in which they feel confident that the removal of the restrictions will not precipitate a new crisis. But it is part of the doctrine of the General Agreement on Tariffs and Trade that as recovery progresses import restrictions shall be discarded. This progressive dis-

mantling of restrictions is not simply an end in itself, or even a mere accompaniment of economic recovery; it is an important contribution to the cure.

When, therefore, a point is reached where balance-of-payment quantitative restrictions can be relaxed, more will be lost in the struggle for recovery by an excessive timidity in scrapping controls than by a policy of calculated boldness in measures of liberation. While none would advocate that the rehabilitation so painfully achieved in the post-war years should be jeopardized by a premature casting-off of controls which are still unfortunately necessary, a few experiments in liberation, even by Governments which are not positive of their ability to bear the risks involved, would provide a stimulus which, coming at a crucial moment, could tip the scales in favour of recovery. Experiments in liberation would shift the emphasis from restriction to expansion in international economic policy.

World Bank Criticizes Restrictions

IN its second special report to the President of the United States and to the Congress on the operations and policies of the International Monetary Fund and the International Bank for Reconstruction and Development, the National Advisory Council reports that it concurred in the initial par values of 1946 and in the Fund's decisions on the exchange adjustments of September 1949 and subsequently. It believes that appropriate exchange rates and policies are essential to achieve the Fund's objectives and that in the period ahead adjustments in individual exchange rates may have to be made from time to time if developing conditions so require.

The retention of exchange restrictions on current transactions or quantitative import controls should be considered as *prima facie* evidence of fundamental disequilibrium. Before permitting use of its resources in such instances the Fund should be satisfied that the programme of the country is adequate to restore equilibrium.

From time to time, the Fund should review the impact of fiscal policies on the payments position of the country, the appropriateness of its exchange rate, the impact on its payments of reconstruction and development programmes, and all other pertinent factors affecting its general payments position.

From International Financial News Survey, Washington, June 9, 1950.

Changes in Real Income in Europe

REAL income in almost all European countries increased still further in 1949 and has reached or surpassed the pre-war level, in some cases substantially. Except in Czechoslovakia and Poland, however, the population has increased and the rise in real income per head is correspondingly smaller. In Norway, Sweden and the United Kingdom, real income per head is about one-sixth above the pre-war level.

In France and several other countries it reached the 1938 level, but in France it is still one-tenth below the 1929 peak.

In Italy, real income per head is still below pre-war by about one-tenth; in western Germany and

Spain (in comparison with 1929) by about one fifth; and in Greece by about one-third. The substantial rise in the national income of the Soviet Union cannot be translated into income per head as no comparative data on population changes are available.

CAUTIONARY POSTSCRIPT

The table in the Survey containing the detailed estimates of the level of real income is accompanied by a note saying: "The data in this table are particularly subject to error and must be treated with caution."

From Economic Survey of Europe in 1949, Economic Commission for Europe, Geneva, May, 1950.

Putting Statistics in their Place

By SIR GEOFFREY HEYWORTH

THE reason why the business man is not much interested in theory is that he wants figures, not for the advancement of knowledge or for their scientific interest, but only as a help in deciding what he ought to do next in the running of his affairs, and it is this fact which lies behind all the points I hope to make.

They are three. First, that business statistics have to be simple; second, that they should be made available in any business only to those who can take useful action on the basis of them and not to everybody who may be interested in them; and, third, that they are useful only as a check on, not a substitute for, the business man's judgment.

All three follow from the proposition that the primary purpose of business figures is to provide information on which the business can make its decisions. When a business man uses his figures for a



theoretical purpose, he has, for the time being, ceased to be a business man and become an economist.

This close connection between figures and the action which follows on them distinguishes business statistics very clearly from those of a research body and from most of the statistics published by the government. They publish their figures for general use. They, therefore, have to be able to stand up to the scrutiny of a wide public who may criticize them from many different points of view, and who may use them for purposes in which very different margins of error are tolerable.

They have, therefore, to be accurate, or if they are not accurate, this fact has to be made quite clear to the reader; they have also to be free of avoidable ambiguity. Finally, they have to recognise that most of the people who read them do so only to provide themselves

with a background of general knowledge. They often do not propose to do anything at all, and they very rarely propose to do anything immediate, as a result of what they learn.

The sort of figures one collects in a business, the accuracy one demands and the circulation which one gives them all depend upon the one crucial test. The figures can only provide facts on which judgment is exercised. They cannot replace judgment. Indeed, without a

business man's own knowledge and experience the figures are frequently meaningless and almost always misleading.

The test of the proper use of business statistics, therefore, is always the skill with which the user combines his own knowledge with the raw figures to produce the finished judgment. There is no substitute for managerial judgment. All statistics can do is to reduce the chance of error inherent in managerial ignorance or prejudice.

From Journal of Royal Statistical Society, London, Volume CXIII, Part I, 1950.

Tidal Power Projects in France

IN France where more than half the electrical energy now produced is derived from hydro-electric stations whose output varies a great deal from year to year according to the rainfall, and where the shortage of coal does not encourage important additions to the thermal generating plant already installed, the idea of harnessing the large tidal range along the coast of Brittany makes a powerful appeal.

The Service d'Etudes sur l'Utilisation des Marées (S.E.U.M.) of the French Electricity Department is making a detailed examination of three projects. The first, which has reached a more advanced stage of planning, relates to the estuary of the Rance, which enters the sea between St. Malo and Dinard.

Studies of the second project, in Mont St. Michel Bay, making use of the Chausey Islands in connection

with the dam and avoiding interference with the immediate surroundings of the famous mount, are in a much less advanced stage, but it is believed that 12,500m. kWh of energy could be obtained from a tidal power station in this locality.

The third project being studied by S.E.U.M. is farther west and is based on the double bay of Arguenon-Lancieux, one of the many irregularly shaped inlets which penetrate the Brittany coast between Dinard and Ushant.

Load conditions in France are such that, provided sufficient seasonal water storage exists at hydro-electric stations to neutralize the fluctuations in the output of tidal power stations between spring and neap tides, it should not be necessary to build additional thermal stations to balance the variable energy production of the tidal plants.

From The Times Review of Industry, London, June, 1950

Making War on Hostile Nature

A Year's Progress in Colonial Administration

IN its essence the task that Britain has undertaken at the side of the Colonial people is a battle against hostile natural conditions. The Government report on the colonial territories* says there are two principal instruments through which Britain makes her contribution to the common effort.

"First the Colonial Development and Welfare Act of 1945 provides £120,000 million to supplement local resources for the basic utilities and services—researches, surveys, roads, schools, hospitals—on which all other progress must be built.

"Second, the Colonial Development Corporation has authority to borrow up to £110 million from the Treasury for projects of a more specifically commercial nature—projects which for one reason or another (perhaps a smaller margin of profit, a greater risk, or a longer period to mature) cannot attract capital from other sources.

"It is mainly through these two instruments, and through continuing guidance in the art of government and administration, that the colonial peoples are being helped to achieve self-government by their own efforts.

"There has been impressive progress during the year under review (1949-50), the fifth since the passing of the Colonial Development and Welfare Act, 1945. Basic surveys and investigations, the key to all

economic development, have been undertaken in all the main fields of economic life in the Colonies, and meanwhile the results of past investigations and surveys are beginning to show themselves in the record of increased production and of new works in progress.

"The Report records increases in the production of sugar, oil palm and coconut products and sisal. On the other hand weather conditions have had an unfavourable effect on the production of West African groundnuts, tobacco in Northern Rhodesia and Nyasaland and cotton in Uganda and Nyasaland. Mineral production, as a whole, has been well maintained and increases have been recorded in 1949 in gold, manganese, copper, tin, diamonds, kyanite and oil.

Work in Progress

"Of the many developmental and constructional works mention may be made of the harbours at Dar-es-Salaam and Mtwara in Tanganyika, the deepwater quay at Freetown and the extension of the main wharf at Takoradi. Railways and other forms of communication in Africa and elsewhere are being expanded and improved. In Uganda steady progress has been made with the very important hydro-electric scheme on the Nile at the Owen Falls."

Chapter VII of the report gives a detailed account of United Nations activities and of other forms of International Co-operation. In Africa four important technical conferences were held, and in addition the Governments of Belgium, France, Portugal, Southern Rhodesia, the Union of South Africa and the United Kingdom have set up a Commission for Technical Co-operation in Africa south of the Sahara.

Outside Africa, the Caribbean

Commission held its eighth meeting in Trinidad in June and its ninth meeting in St. Thomas in December, 1949.

The South Pacific Commission held two sessions at its new headquarters, Noumea. Preparations were made for the first meeting in April, 1950, of the South Pacific Conference, the auxiliary advisory body designed to associate the local inhabitants of the territories with the work of the Commission.

**The Colonial Territories (1949-50), C.M.D.7958 H.M.S.O., London.*

Scarcity of Rice in Asia

IN an article by its South-East special correspondent *The Times* of July 8 draws attention to the seriousness of a new crisis: "losing the battle for rice is the quickest way of losing all South-East Asia."

"Before the war the three rice-exporting countries of south-east Asia, Burma, Siam and Indo-China, produced an annual exportable surplus of between 6 million and 7 million tons. Last year's surplus, the largest since the war, was 2,500,000 tons; this year's is expected to be under 2 million tons.

"Production in Siam has returned to its pre-war scale, but exports from Indo-China have virtually ceased and current exports from Burma, owing to the disturbed state of the country, are two-thirds of what they were a year ago."

Japan, which used to draw its requirements from Korea and Formosa, is now a competitor for the limited supplies available—China is, also, a purchaser. India has reduced her demands, but still requires 200,000 tons. Indonesia would like to buy even more. The British Government has contracted to buy from Siam enough to meet the needs of Hong Kong, Malaya, Singapore and the British territories in Borneo—Ceylon is also an importing country.

It is not easy to change the dietary habits of Asian people; in nothing are people more conservative than in their basic foods. Shortage of rice, the basic food of much of South-East Asia, has been in the past and can be again a most fertile source of discontent, especially if exploited by agitators.

Economic Consequences of the Cold War

The defence expenditures of Britain and the U.S.A. before the Korea crisis were small as compared with the costs of war, but already posed problems of economic stability

THE inflationary effects of total war are well known, but the effects of the cold war may differ in that it possesses certain distinctive features. A major part of the contest is in a sociological plane and for the western nations a major part of the offensive lies in proving the effectiveness of their social systems—as of free enterprise and democracy—as the best means of promoting human welfare and national strength. Recovery and prosperity are not to be regarded only as the final fruits of peace; for the cold war they are among the first of tactical objectives.

It is the need to attain such objectives that has caused the more advanced nations of the world, especially the United States of America, to give financial and material aid to less fortunate countries. Already the results of casting American bread upon the waters, and of the efforts of those peoples who have received it, are to be seen in a useful step towards recovery. As an instance, in many countries under western influence the level of industrial production is above that which prevailed prior to the war. The recovery has been hastened by policies inspired by the need to secure peace and strength through prosperity.

But even from the strictly confined view of its effect on business, the cold war has its sterner side, for

it demands a measure of military preparedness which must absorb productive capacity. In so far as it does this, it tends to exert an inflationary pressure which differs only in magnitude from that of total war.

This tendency arises because expenditure on defence places purchasing power in the hands of those engaged in the forces and in producing defence materials without providing any equivalent in goods and services for civil consumption, and the balance between goods and money thus tends to become disturbed.

But the balance is really upset and inflation becomes a reality only if the burden of defence expenditure placed upon productive capacity and national finances becomes excessive. The effect on world prices depends upon the magnitude of that expenditure and the proportion of the incomes of nations which it absorbs.

The difference between the costs of total war and the present costs of the cold war is tremendous. For example, the United States, the largest spender on defence among the western nations, expended about 6 per cent. of her national income in military defence during 1948-49, whereas in 1944-45 the war absorbed about 50 per cent. The United Kingdom in 1948-49 spent about 7½ per cent. as compared with over 60 per cent. in 1944-45.

The current defence expenditures

of the two largest western powers are small as compared with the costs of war, but are they small enough to be contained without weakening stability? In Great Britain they represent nearly one-quarter of budget expenditure and contribute to the heavy tax burden in that country, while in U.S.A. they absorb more than a third of Federal revenue and are largely responsible for budget deficits.

However, one indication that in the U.S.A. at least they are not large enough in themselves to bring about inflation of prices is that the burden was actually carried throughout 1949 without any marked rise in the price

level.

In 1950 and 1951 American defence expenditure is expected to increase but the increase envisaged at present represents only about 1 per cent. of national income and is a small fluctuation compared with changes in other items which affect American purchasing power. For example, the fall in farm incomes in the U.S.A. between 1948 and 1949 was twice this proportion and the fall in private investment was about five times as much.

In the United Kingdom where the margin above basic needs is less and defence expenditure represents a larger proportion of national income

What We Spend on Armaments

MANY different estimates exist of the proportion of national resources devoted by the nations to defence. The following table, which differs from that published in

Economic Digest in December 1949, is from the recent *Annual Report of the Bank for International Settlements, Basle*.

CURRENT DEFENCE EXPENDITURE AS A PERCENTAGE OF NATIONAL INCOME.

Country.	ESTIMATES FOR 1949 OR 1949-50.			Percentage.
	National Currency Unit	National Income.	Defence Expenditure in the Budget.	
In millions.				
United Kingdom	£	10,000	740	7.4
France	Fr. fc.	7,000,000	350,000	5.0
Italy	Lit.	6,500,000	250,000	3.8
Germany (Western Zones) ...	DM	67,000	4,500 ¹	6.7
Austria	Sch.	29,000	529 ¹	1.8
Belgium	B. fc.	250,000	6,280	2.5
Denmark	D. Kr.	16,500	316	1.9
Ireland... ...	£	350	4	1.1
Luxemburg	Lux. fc.	8,800	130	1.5
Netherlands	Fl.	14,000	850	6.1
Norway	N. Kr.	10,500	266	2.5
Portugal	Esc.	N.A.	1,400	—
Sweden	S. Kr.	24,000	855	3.6
Switzerland	Sw. fc.	18,000	485	2.7
Turkey...	Lira	7,900	460	5.8
United States	\$	222,000	13,000	5.9
Canada	Can. \$	13,000	385	3.0

National Income Statistics 1938-1948, Statistical Office of the United Nations, Lake Success, 1950.

¹Occupation costs. A part of the occupation costs is for the upkeep of civilian services, for which reason the figures given for Germany in the table may be reduced by one-fourth.

the avoidance of inflation from this cause is more difficult. However, the United Kingdom also has managed to bear defence costs in their present proportion during the past year while the rise in her price level has been small and attributable, in part at least, to other causes.

From the war period up to 1949-50 Britain's defence costs were declining due to the steady reduction in expenses carried over from the war and in that year they amounted to £741 million. An increase to £781 million is envisaged for 1950-51 but this addition of £40 million represents less than one half of 1 per cent. of the national income and, as a fluctuation which affects the balance between purchasing power and consumption goods, it is not as large as other changes such as the increase of £145 million between 1948 and 1949 in investment in fixed

capital.

In the other western powers, the burden of defence costs is no greater and in many cases not as great as for the United States and the United Kingdom, nor are the additions at present envisaged likely to be much greater in proportion.

The direct costs of the cold war are a burden on financial resources and the productive capacity of nations and they do exert some influence towards continued inflation of world prices. But they are not at present nor, although they may increase, are they likely to be in the near future sufficient in themselves to catch the world up in another whirl of rapidly spiralling inflation.

They are a contributing but not a dominating influence and at their present scale their effects could be submerged by other tendencies, especially by changes in investment.

AN ALUMINIUM CITY FOR BRITISH COLUMBIA

According to Vancouver reports a team of 50 engineers will spend four months in British Columbia's mountainous north coast area this summer to find a suitable site for a 500 million dollar aluminium industry. The Aluminium Company of Canada, Ltd., is investigating three locations for an industry which would be the largest on the West Coast. Its development will mean establishing a city of 50,000 persons amid the uncharted mountains. Residents would be employed in aluminium manufacture and scores of connected businesses. The city would be a deep-sea port, exporting aluminium throughout the world, and would rank as British Columbia's third largest, preceded only by Vancouver and Victoria. The whole project depends on discovery of a suitable dam site to develop the necessary hydro-electric power. The plan to set up a plant in British Columbia is motivated by cheap hydro-electric power.

Treasury's £5,000 M. Plaything

Vast funds outside the control of Parliament are at the disposal of the Chancellor of the Exchequer, who is using them to shape the gilt-edged market

ACCORDING to classical principles, British public finance should as far as possible be brought to focus in the annual budget, and all receipts and payments should be displayed for public scrutiny in the budget accounts. The City and a wider public are now realising how far modern practice has departed from these salutary principles, in consequence of the huge growth of funds for which the central government is responsible but for which it does not have to account through (or even on the occasion of) the budget.

The first reminder is to be found in the initial accounts of the National Insurance Funds; and the second in the ease with which "the departments"—that is, the various official custodians of the extra budgetary funds—subscribed for up to two-thirds of the recent £150 million loan of the British Electricity Authority.

The existence of large funds of this kind raises questions of high principle, especially of constitutional practice and monetary policy. But, in terms of workaday practice, it is in the gilt-edge market that their effects and implications are most apparent. Indeed, no one can attempt to measure the forces that play upon the gilt-edged market without some knowledge of the extent and structure of the funds and the principles on which their influence may be brought to bear.

The authorities have always made it as difficult as possible to get the facts. Most, but not all, of the relevant accounts are published, but only after a long interval and some cover periods different from the national financial year. No comprehensive statement is published to show the resources and disposition of the funds as a whole.

Most people beyond the few who follow such matters closely learnt with astonishment that the National Insurance Funds were administering capital assets exceeding £1,000 million; and those who thereupon probed this striking fact were more surprised still to learn that these funds are not only "extra budgetary" but are virtually an extra budget in themselves.

£600 Million a Year

They have an annual income of some £600 million, equivalent to roughly three-quarters of the whole budget of the central government before the war, and of this income more than two-thirds, comprising insurance contributions from employers and employees, is in form indistinguishable from national taxation. In the calendar year 1949, the insurance funds retained a net surplus of £157 million, so that their capital resources must now be approaching £1,200 million.

Vast though the insurance funds are, they hold only a moderate proportion of the assets of the departmental funds as a whole. In response to an annual question in Parliament, the Chancellor has for some years past disclosed the total of public debt held by Government departments as at the preceding March 31.

National Debt Commissioners

Except that it takes no account of holdings of government-guaranteed stocks, as distinct from direct obligations of the British Government, this total must comprise virtually the whole of the funds of the departments concerned. The latest figure, relating to March 31, 1949, and disclosed last November, was £3,753 million, of which £406 million comprised floating debt.

Scrutiny of the separately published accounts of investments held by the National Debt Commissioners on behalf of the trustee savings banks (at end-November, 1948), the Post Office savings bank (at end-December, 1948) and the National Insurance Funds (March 31, 1949) showed that these three entities accounted for all but £400 million of the total £3,753 million of departmental holdings of direct Government debt and for nearly all their holdings of non-floating debt. They also held £304 million of guaranteed securities, bringing the grand total of disclosed departmental holdings up to nearly £4,060 million.

More Surprises

The bald information given in the Parliamentary answer takes no account of funds held by the Government in a fiduciary capacity—such as,—for example, holdings for account of the Public Trustee,

the Treasury Solicitor, the Charity and Ecclesiastical Commissioners and, of course, the various currency boards—although the investment policy of certain of these bodies might be to some extent responsible to official views.

More important still, it excludes both the Issue Department of the Bank of England and the Exchange Equalisation Account, even though the disposition of these assets is wholly at the discretion of the Treasury. There is no longer any means of ascertaining whether the Exchange Account now holds any sterling assets; the prewar limit of £575 million upon its borrowing powers was withdrawn at the outbreak of war, and it has not been disclosed to what larger figure they have been exercised—the current worth of the gold and exchange holdings alone is £710 million.

Bank of England

No accounts whatever are published to throw any light on this question. The Issue Department of the Bank of England, however, holds nearly £1,290 million of Government securities, excluding the £11 million of permanent debt. This means that the extra-budgetary resources definitely known to be at the disposal of the central government amounted, at March 31, 1949, to about £5,350 million; and this "known" aggregate, which is the minimum extent of the funds, has probably since increased by some £100 million. A roughly comparable figure for March, 1939, would be just over £800 million—excluding the sterling assets of the Exchange Account.

Many people are under the impression that these vast funds necessarily give the Government great

power to dominate the financial scene and even that they provide a reservoir that might be tapped to aid the central budget. The first of these impressions is only partially true; the second is wholly false. The accumulated resources represent money that has been entrusted by the public to the Government in divers capacities, but this money, instead of being kept in the form of idle cash, has all been fully employed in one of two distinct ways.

How the Money is Used

First, it may have been used to meet the current deficit of the central government, and lent by the department concerned to the Treasury against "internal" issues of floating debt or against sales of special internal securities such as terminable annuities; or, secondly, they may have been employed by the Government in re-purchasing its own longer-term debt from the public. It follows, therefore, that before the capital resources of these funds can be used to support the gilt-edged market by taking in longer-term securities, the departments must first get command of cash in exchange for the "internal" Government debt they hold.

Influence of the Chancellor

If they are to do this, the Treasury must first increase its own borrowings from the banking system (by increasing its weekly offerings at the Treasury bill tender or by placing additional Treasury deposit receipts with the banks) and then transfer this cash to the departmental funds concerned in repayment of its "internal" borrowings from them against tap Treasury bills or ways and means advances.

Thus, at any given moment, the departmental funds cannot be brought to bear for net new purchases of securities from the market without a corresponding expansion of credit, necessitated by the Treasury's additional borrowings from the banks. As the early postwar experience has shown, a Chancellor who is prepared not only to disregard the investment conventions that are supposed to govern the employment of some of the funds but also to embark recklessly upon credit expansion, can produce a very large distortion of the gilt-edged market. But a government that is aware of the dangers of credit expansion in conditions such as those ruling today dare not, except in the short run, finance by this means any large net intake of securities from the market.

Where the Real Power Lies

This means that if the authorities are determined to follow a prudent monetary policy, their power to use the departmental funds for net new purchases is conditioned, not by their vast capital resources, but by the extent of their net current income available for investment. This is a much smaller sum, and is mainly represented by the net surplus now accruing to the National Insurance Funds at the rate of about £160 million a year. Moreover, as an article in the June issue of *The Banker* points out, it is likely that in this current fiscal year the whole of this sum will be bespoken for current outgoings of the central government.

If net encashments of small savings and net repayments of tax reserve certificates continue at the same rate as in 1949/50, they will together absorb rather more than

£100 million. And if Britain's external balance of payments produces the surplus of £50 million assumed in the Economic Survey, the central government would have to find an approximately equivalent sum to finance net purchases of gold and/or to repay overseas sterling balances at present lent to it against floating debt. Hence, even if the "overall" budget of the central government shows no deficit, it will still have to find a sum roughly corresponding to the net inflow from the insurance funds.

If these calculations are broadly correct, the recent intake of BEA stock must have confronted the authorities with a stringent position

that could be corrected only by an undesirable credit expansion or by sales of securities for cash. The new funding issue was evidently designed to provide the cash—but the pace at which the authorities have since found themselves required to absorb the "unassented" 1949/51 War Bonds means that it will be some time before the full relief to their position becomes apparent.

In the meantime, they are drawing skilfully upon the great scope that the departmental funds afford them for shaping the gilt-edged market by judicious and carefully-timed switching of their holdings.

Popular Fallacies About Profits

By LORD AMWELL

(Labour)

SHARING-OUT profits is part of the larger fallacy that it is possible to achieve a "bloodless" revolution by re-distributing the money income of capitalist society or that many are poor because a few "gorge and guzzle" rather than the other way round. Nothing has had more disastrous results upon working-class thinking since the days when "dividing-up" was laughed out of court by Socialist economists.

If dividing-up is the solution of capitalist "contradictions," why is it that Co-operative societies, owned by the workers, pay out not an exploited "two-thirds," but a mere commercial four or five per cent.? It cannot be because Co-operative

societies are compelled to handle non-Co-operative goods (the reason more than once given to me) for so are private enterprise shops.

A stabilised capitalism is no doubt better than a chaotic one, but who knows it better than the intelligent capitalist? I am familiar with an industry which is a closed shop for employers and employees alike. It pays excellent wages, and the "boss" does not mind in the least, for the commodity (a cost-of-production in every other industry in the country) is five times the price it was 40 years ago. "Fellow-workers" pay, as they always do in the long run. It is the old story of up-to-date versus stick-in-the-mud enterprise.

Limited Value of Anglo-American Productivity Studies

By
FRANCIS WILLIAMS



IN the last twelve months fifteen teams of managers, technicians and workers from various industries have visited America to study production methods. They have brought back very valuable reports, six of which so far have been published. Each one of them has commented at length on the much higher level of productivity ruling in the American industry. And, since higher productivity is one of our chief needs, it is argued with much force and a good deal of logic that British workers and British management can and must learn from American methods.

So they can. So they must. And so—as the attitude of these production teams shows—they are prepared to do. And, although there are some things American industry can learn from us, the balance is not equal. Over the whole field of modern industry there is more—and probably very much more—that we can learn from American techniques than American managers and workers can learn from ours.

That being said—and said without any reserves of any kind—there is still a good deal to say. We can almost certainly raise output considerably in a number of industries by studying American techniques. But I think we shall be mistaken if we imagine that it is possible to raise British output per man to the same level as American output per man—or it would be a good thing if we could.

The other week the leaders of all the fifteen productivity teams that have so far visited America wrote to *The Times* saying how valuable their experience had been and very sensibly urging other industries to go and learn likewise. 'We have,' they went on, 'learned lessons not confined to techniques of productive processes. . . . We have been face to face with an enthusiasm in applying knowledge, an outlook on industrial productivity and a way of life which constitute a challenge to the whole world.' It is with this challenge and its relationship to

what we can learn from America that I want to deal.

American productivity has been brought to the highest level in the world by a combination of a number of things, among them techniques of management, machine utilisation, industrial lay-out, management-worker relations within the plant and the use of a great deal of unskilled auxiliary labour by breakdown of elaborate processes into simple parts. It is a pattern which has been adapted not only to industrial production but to distribution and even to some of the professions.

Not Our Way

Some of these techniques can be transplanted here with great advantage. But that does not mean that the whole pattern of American production method—successful though it is in an American context—is capable of being transplanted here or that it would be a good thing if it were. It cannot be transplanted, just because it is, in fact, a part of that American way of life to which the leaders of the productivity teams point as part of the United States challenge to the world. The American industrial system is what it is because of the social framework within which it operates.

The British manager and British worker can no doubt learn a good deal from the American manager and the American worker. But they cannot become American managers and American workers—and it would be a bad thing if they tried to. Nor can the British consumer become an American consumer. This is the conditioning factor we should be wise to keep in mind when we consider what we can learn from American methods.

The really distinguishing features

of American industrial technique are a result of American history. They were designed in the first place to overcome a specific American problem and answer a specific American need. And, like all successful industrial processes, they have helped to form the characters of those who operate them and those who buy from them.

They were shaped by two things. The first was the American need to absorb and make fully productive very large numbers of unskilled immigrant workers. These workers could only be fitted quickly into an industrial system if a way could be found to break down highly skilled and highly involved technical processes into a great many routine parts, each one of which could be carried out by men with a minimum of training and experience: men, moreover, who had no desire to settle down and learn one particular skill but who by the nature of their society were just as likely to move on to a quite different industry in a few years or even months if the pay packet seemed likely to be larger.

'Much British work is too highly finished,' says one of the Productivity Reports, and remarks that some members of the team were appalled at the condition of some of the connecting rods turned out by an American plant for motor-cars. 'But,' it comments, 'they served their purpose.'

That is an adequate answer in a system where the worker is thought of, and thinks of himself, primarily as a unit in a production technique designed by an efficiency engineer—where he finds his satisfaction in figures of total output. It is not likely to be so adequate in a more individualistic society like ours, where a worker feels himself not

just a unit but a person, where he wants to be able to look at the bit he has done himself and say with a certain pride: 'I reckon that's none so bad anyway.'

Although production systems are shaped by the needs and expectations of their societies, productivity depends not only on systems but on the men who operate them—workers and managers. 'There was an air of the competitive system wherever the team went,' says one of the productivity reports. And another, 'Every employee from president to operator is production-minded.' And it is certainly true that, in the words of a recent survey of American labour organisation by an American trade union official, Mr. Sidney Lens, 'American labour is the most business-conscious labour movement in the world.'

But before deciding what we in Britain can, and cannot, learn from this, let us look a little closer into its meaning. It does not mean that relations between labour and management as a whole are better in the United States than they are here. Indeed the contrary is the case.

Industry-wide stoppages resulting from irreconcilable differences between trade unions and managements have to all practical purposes disappeared from the British industrial scene. Except for occasional unofficial strikes, negotiation and arbitration have taken the place of the strike weapon. Not so in America. There the industry-wide strike—like those of last year in steel and coal which threatened to bring the whole economic life of the nation to a standstill—is still a characteristic feature of the industrial landscape.

American workers and American managements do not always like each other—but they like the same

things. They speak the same language in the workshop, because it is a specifically American language. It is the language of a country which to a degree not paralleled anywhere else has accepted earning power as one of the chief tests by which a man's value as a social being and an individual is judged—and not only by others but by himself. Now that is clearly a great gain to an industrial system, although it may bring its problems for a civilisation.

When I was in the States for the last time a few months ago there was cabled over from England by a visiting American correspondent a story that shocked America. It was the story of a miner who was asked why he worked a certain number of shifts. 'Well,' said he, 'if I worked less it 'ud be a bit tight for the missus and me and if I worked more I wouldn't have time to look to my garden.' 'That,' said the American correspondent, 'is why British productivity is low. British workers prefer to grow roses.'

The End in View

And so, within reason they do. At the present time it is obviously necessary that we should all curtail our liking for such pleasant occupations and concentrate on increasing the output of the things by which we live. And in doing so we can certainly learn a great deal from some American methods of manufacture and distribution. But let us not, in our proper desire to learn, imagine that we can transplant American industrial methods or American industrial attitudes in their entirety. Or that it would be a good thing if we could.

1,200 Dollars Behind Every Employee

The "power" of an industrial corporation is power supplied to the workman, to turn out the goods and in the process to produce his own wages, the cost of supplies and equipment and the taxes levied by government

IN the discussions of the growth and size of American industrial corporations prominence is always given to total assets or "resources" which is used as a measure of "power." Manufacturing companies with a million dollars or more in total resources have become commonplace and there are a dozen today that pass the 1,000 million dollar mark.

While big figures of total assets correctly, though inexactly, reflect large scales of operation, it is frequently overlooked that they also reflect the heavy investment that is required, under to-day's advanced techniques, to put tools, machinery, and materials at the disposal of the workman and to maintain a flow of production and a flow of payments to suppliers, to the workman, to the tax collector, etc.

The continued heavy cash outlays last year for plant modernization and expansion brought to new peaks both total invested capital and average investment per employee in manufacturing enterprise. An analysis of the annual reports of the country's 100 largest manufacturing corporations, which collectively employ over 4,000,000 men and women, shows that their combined total asset exceeded 49,000 million dollars at the end of 1949.

For these 100 corporations as a group, total assets represented an

average investment of 12,200 dollars for every worker. Of this, 5,400 dollars was in the form of plant and equipment, valued in most cases at original costs less accrued depreciation, a figure which grossly understates present-day value in view of the sharp rise that has taken place in replacement costs.

The remaining 6,800 dollars was largely in current assets used in carrying on the business—inventories of raw materials, work in process, and finished goods; accounts and notes receivable from customers; cash in hand and in the banks; and holdings of U.S. Government and other marketable securities.

In modern plants, many of the people engaged in "manufacture" merely turn valves, watch gauges, or keep records. The dollars range among representative major industry groups is as follows:

No. of Cos.	Industrial Groups	AVERAGE TOTAL ASSETS PER EMPLOYEE OF THE 100 LARGEST MANUFACTURING CORPORATIONS in 1949	
		Average Investment	
4	Tires, rubber products	5,600	
4	Autos and trucks	6,900	
4	Electrical equipment	7,100	
9	Food products	8,700	
9	Iron and steel	10,700	
14	Machinery and equipment	10,800	
3	Pulp and paper	13,000	
7	Nonferrous metals	15,300	
6	Chemical products	15,400	
4	Distilling	28,800	
20	Petroleum products	32,200	
4	Tobacco products	41,200	
12	Other manufacturing	11,800	
100	Total 100 companies	\$12,200	

This investment averaging 12,200 dollars per employee was provided to the extent of 8,500 dollars or 70 per cent by the shareholders, who number slightly over 5,000,000 with the remainder represented by debt—long-term bonds and notes, and current liabilities for bank loans, accounts payable, tax reserves, accrued liabilities, etc.

The total for shareholders, exceeding by 1,000,000 the numbers of employees, contains duplication to an unknown degree, arising from the fact that many individual investors may hold shares in more than one of the 100 largest companies. An offsetting factor is that numerous registered shareholders are trustees or "nominees" holding stock for large numbers of individual owners, and other registered shareholders are insurance companies, pension funds, investment trusts, etc., in which millions of individuals have some beneficial interest.

Assets Made Jobs

It was the total of assets provided through these 100 corporations from equity capital (comprised of original investment, sales of additional stock, and reinvested earnings) plus the borrowed money, that supplied the wherewithal to make the 4,000,000 jobs possible. Payroll statistics, given in the annual reports of 71 corporations which accounted for 85 per cent of the total employment of the group, indicate an average compensation of 3,500 dollars per employee last year.

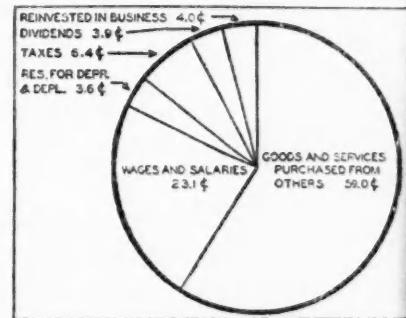
Sales and income data available for 97 of the 100 largest corporations show that these organizations not only produced enormous quantities of goods last year but also produced enormous payments to others, including—in order of size—goods and

DISPOSITION OF INCOME OF THE 97 LARGEST MANUFACTURING CORPORATIONS IN 1949*
(In Millions of Dollars)

	Total Amount	c per \$ of Receipts.
Total Receipts from sales and other operations	\$57,639	100.0
Costs :		
Costs of goods and services purchased from others, etc.†	33,983	59.0
Wages and salaries paid†	13,320	23.1
Reserves for depreciation and depletion	2,072	3.6
Federal income taxes	2,443	4.2
Other taxes	1,247	2.2
Total costs of operations ...	53,065	92.1
Net income ...	4,574	7.9
Pfd. and common dividends paid ...	2,231	3.9
Reinvested in the business ...	2,343	4.0

*Based on the 100 largest corporations, less Ford Motor Co., Singer Mfg. Co., and United Fruit Co., which do not publish complete sales and income accounts. †Partly estimated, on basis of payrolls reported by 71 companies representing over 85 per cent of the total employment of the group.

DISPOSITION OF GROSS INCOME, IN CENTS PER DOLLAR, OF THE 97 LARGEST MANUFACTURING CORPORATIONS IN 1949.



services purchased, employees' wages and salaries, taxes, reinvestment in the business, and dividends to shareholders.

From the composite income account of these companies it will be seen that total receipts from sales and other operations last year amounted to some 57,600 million dollars. Of this aggregate, 34,000 million, or 59 cents per dollar of receipts, was distributed for goods and services purchased from others; 13,300 million, or 23.1 cents, was paid in wages and salaries to the companies' own employees; 3,700 million or 6.4 cents, was paid or

accrued for direct federal, state, local, and foreign taxes.

The tax bill, averaging 37,000,000 dollars per company, does not include large amounts of excise and sales taxes collected to the various governments. On products subject to high and overlapping taxes, the levies which the customer pays as part of the cost, but which do not even enter into the producer's income account, are several times as high as all the direct taxes chargeable to operations.

Extent of Taxation

Four of the large distillers paid direct taxes last year of 113 million dollars but also collected excise taxes of 1,086 million dollars. Four tobacco manufacturers paid direct taxes of 91 million dollars, and collected excises of 1,166 million dollars. Twenty petroleum refiners paid direct taxes of 744 million dollars, and collected excises of 1,792 million dollars.

Neither do the above payments of taxes include the employees social security taxes or income taxes, levied on wages and salaries but collected and paid over to the Government by the company, not to mention the clerical burden of making out the multitudinous tax returns, both in connection with the taxes for

which it is directly liable, and those for which it acts as a collecting agent without compensation. Recently the National Industrial Conference Board made a survey on the expense of filing tax returns by 125 companies, which showed that the number of returns ranged from 12 to 5,000 (exclusive of information returns on employees) and that the estimated expense in the case of some companies ran to as much as 5 per cent. of sales.

The smallest item of cost shown on the table and chart, the allowance for depreciation and depletion, amounts to 2,100 million dollars or 3.6 cents per sales dollar. Such charges against income provide for the ageing and wearing out of plants and equipment, and in partial degree for the using up of mineral and oil resources.

Net Income

Net income remaining after all expenses amounted to over 4,500 million dollars, or 7.9 cents per sales dollar. Dividends were paid to preferred and common shareholders in the amount of 2,200 million dollars, or 3.9 cents per dollar, while 2,300 million dollars, or 4 cents per dollar, was reinvested in the business to provide the funds for the continuing capital expenditures and to build up working capital.

NATIONAL INCOME CALCULATIONS

Several countries (Ireland, the Netherlands, Sweden) have recently made attempts to develop methods indicating the degree of accuracy that may be attributed to various types of estimates used for computing the national income. Obviously, any attempts to evaluate the accuracy of an estimate may easily be influenced by the subjective judgment of the responsible statistician, because independent information permitting an appraisal of an estimate is often not available. Nevertheless, the methods used may be considered as valuable steps in the direction of developing some kind of "statistical ethics" in the field of statistical estimation.

Changing Picture of Canada's Labour Force

The trend is towards manufacturing and service industries and away from agriculture. Also there is a tendency for annual increases in the labour forces in excess of the new jobs available

THE interplay of many forces has produced at the present time in Canada an employment picture along approximately the following lines: out of a total population of 9,679,000 citizens above the age of fourteen years, there are 5,108,000 either gainfully employed or seeking work; nearly four out of five of this group are male, and by far the largest age group (44 per cent.) are in the 25-44 year bracket; over three out of five in the more industrialized provinces of Ontario and Quebec; about one in five is normally engaged in agriculture; and almost a third are unskilled workers.

As may be seen from the chart, the most significant of the internal shifts has been that from one occupational group to another, a movement best exemplified by that away from agriculture and into manufacturing, or away from the primary and into the secondary industries.

Fifty years ago agriculture accounted for two out of five workers, and it continued to be the largest single employment category until World War II, when it was displaced by manufacturing, which at the turn of the century had given employment to only about one in six. At the present time the respective ratios of agriculture and manufacturing are one in five and one in

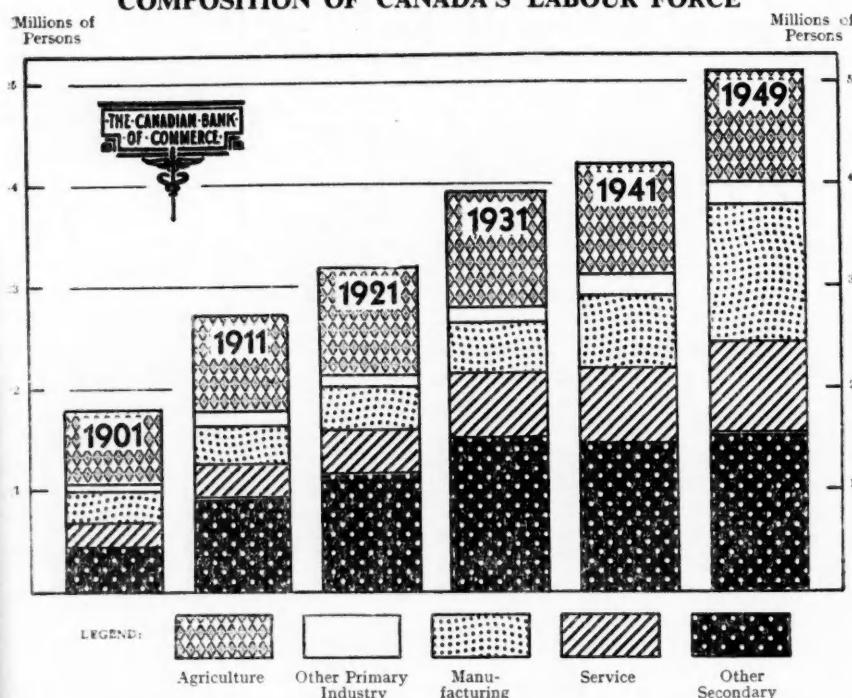
four.

During the present century, there has been a steadily narrowing proportion of the working force engaged in agriculture and, between the census years 1931 and 1941, there was an absolute as well as a relative decline in those so employed. The 1946 quinquennial census of the Prairie Provinces showed a further decline in actual numbers engaged in agriculture, which was presumably general as subsequent annual averages derived from labour force figures show a net absolute decline of 97,000 and a relative decline from 24.7 to 21.4 per cent. between 1946 and 1949.

(This tendency toward a decline in the proportion of the population engaged in agriculture appears to be international. The global population shows an over-all increase of about 9½ per cent between 1937 and 1948, whereas those engaged in agriculture had increased only 5 per cent.)

Other primary industries, logging and mining in particular, have maintained their share of the total labour force over the half century to a greater extent than agriculture. One need not seek far for the reason. The forest and mineral wealth of Canada was relatively undeveloped at the turn of the century and the secondary industries based on

THE ECONOMIC DIGEST
COMPOSITION OF CANADA'S LABOUR FORCE



N.B.—Figures for 1901-1941 are based on the Census of Canada; those for 1949 are an approximation based on the Dominion Bureau of Statistics estimate of the Labour Force, excluding Newfoundland, previous figures for which are not available.

wood and minerals were also in their infancy.

But as demand for their products grew (pulp and paper, lumber, cellulose-based textiles, and all the fabricated products of the metallic and industrial minerals) demand for the raw materials naturally expanded.

All told, the primary industries accounted for about a quarter of the working force in 1949, as compared with just under 31 per cent in the last census year (1941) and a little over 44 per cent in the census year 1901.

The decline over the half century has been uninterrupted, the most pronounced movement being that in

the 1901-11 decade and in the 1941-49 period, the former a period of rapid growth in population and the latter one of great social and industrial change.

In the 40 years of this century covered by the census figures, the movements in even the relatively short inter-census periods are illuminating. Manufacturing, for instance, declined in importance as a source of employment between 1901 and 1911, and was fairly stable at the lower level for the next twenty years.

The war-time census of 1941 found manufacturing providing for the same proportion of the working population as in 1901—just under

17 per cent. With plant and productivity increasing at an unprecedented rate in the war and post-war years, manufacturing accounted for 26 per cent. of the total labour force in 1949.

The proportion of the labour force employed in construction has been surprisingly stable at just over 5 per cent from 1901 to 1941, with a slight increase indicated by 1949. Transportation has widened gradually over the years from less than 5 to over 7 per cent, and trade and finance to about the same degree until 1941, since when there are indications that it is expanding more in line with manufacturing.

The growth of the service trades has been more marked in kind than in volume, though an increasing percentage of the population is so employed. Professional service has gained slowly from just over 4 per cent. to about 6 per cent, but the range of personal services has widened greatly, and there has been an important shift from domestic service to commercial or community service such as laundries, restaurants, and the like.

Geographical shifts in employment are more frequent but less broad in scope at the half-century mark than they were during the first quarter, when migrations of workers were on a fairly large scale, the result of the opening up of the West and of the more intensive development of natural resources, chiefly connected with the mining and forestry industries, which steadily pushed back the margin of occupied territory.

The working population reached a relatively high degree of mobility during the war and early post-war years, when newly-established munitions factories became the centre of new town sites, farmers

became off seasonal workers in industry, "white-collar" workers helped out on farms and Nova Scotia coal miners migrated to Northern Ontario hard rock mines.

The seasonal movement of agricultural workers is one with which we have long been familiar in the form of "harvesting excursions" to the grain-growing areas of the prairies. These organized movements of seasonal workers in agriculture have expanded to take in many types of crop, widely separated areas and even the international exchange of workers.

The acute labour situation in the western grain-growing provinces in the early days was the result of the short harvest season, the lack of off-season employment in the area for harvest workers and the great distances between job and worker. The situation has vastly improved, however, with the introduction of combine reapers, better transportation and a larger urban population from which to draw harvest labour.

Exchanging Workers

Following an agreement with the United States in 1941, an international exchange of seasonal workers was facilitated by the reduction of immigration formalities and the like. One of the main beneficiaries of this agreement was the prairie grain grower, as combine harvesting units with their crews moved across the border for the earlier harvest in the southern and mid-western states, to be followed by a reciprocal movement into Canada for the prairie harvest.

The movement grew steadily from 1942 on and in 1947, the last year for which statistics are available, 1,150 Canadian crews participated. This is but one aspect of this international exchange of

workers, which within less than a decade has come to be an accepted means of overcoming local and temporary shortages.

The somewhat earlier maturity of most crops in the United States and the similarity of product and method lend themselves to this reciprocity of labour, and we now have regular, organized movements of Quebec maple sugar workers to Maine and Vermont, combine harvesters in both directions, Quebec and New Brunswick potato pickers to Maine, and Manitoba pickers to North Dakota, Saskatchewan sugar-beet blockers and harvesters to Montana, New Brunswick pea harvesters to Maine, and United States tobacco harvesters and curers to Ontario and Quebec.

Yet another shift in the labour force grouping is that occasioned by the changing age pattern. While

the average age of the population is increasing, the labour force is withdrawing at both ends, leaving a growing proportion of workers in a contracting age group.

At present there appears to be a tendency, both in this country and in the United States, for the labour force potential to increase faster than available employment opportunities. That is, the increase in the labour force and in productivity as the result of technological improvements is exceeding that in the general level of business, high though that is.

The rise in unemployment in Canada during the past half year had other causes, chiefly abnormal weather conditions and a decline in wood-cutting operations, but here, as in the United States, the paradox of unemployment associated with prosperity has been in evidence.

EMIGRATION DECLINES

The total number of migrants of Commonwealth and foreign nationalities to and from the United Kingdom by sea during 1949 showed decreases of 9 per cent. in the emigrants and 12 per cent. in the immigrants, compared with the previous year. The number of emigrants of Commonwealth nationalities to Australia in 1949 (53,000) was the highest since 1913, when it was nearly 57,000, and was almost as great as the total of the migration to that country in the three years 1946-8. Emigration to Canada dropped by 40 per cent., compared with 1948, to the lowest figure since the war, and was lower than in any year from 1919 to 1930. The number emigrating to South Africa in 1949 was only 40 per cent. of the figure for the previous year, although still higher than the pre-war average. In 1949 the United States also attracted the lowest number of emigrants from the United Kingdom since the war, 17 per cent. less than in 1948.

Modern Capitalism and Economic Progress

By THOMAS WILSON

THIS* book is a defence of Private Enterprise against Socialism, but unlike some people who undertake the task, Mr. Wilson sees the problems as a whole and analyses the pros and cons of conflicting theories with impartiality.

Not everything is wrong with socialist policy nor everything right in capitalistic tenets. In his view what is good in socialism can be made applicable to private enterprise and what is wrong in private enterprise will have to be eliminated if capitalism is to survive. As he says in the preface:

"If a 'Socialist' is one who dislikes extreme inequality of income or of opportunity, then I suppose all economists are 'Socialists'; it is a very different matter, however, if 'Socialism' is taken to mean the destruction of private enterprise and the public ownership of all the means of production.

"Similarly, if the title of 'planner' can be earned by supporting an active policy to maintain a high level of employment, then it may be true that all economists are 'planners'; but they are not all 'planners' by any means if 'planning' implies the abandonment of the price mechanism and the profit motive in favour of authoritarian production programmes enforced by means of controls. Even Lord

Keynes has been described as a 'socialistic planner,' which must surely be regarded as a surprising label for that great liberal economist."

Part One of the book is, in the main, a statement of the economic, social and political aspects of the problem and the author concludes by asking five questions:

(1) **Inequality of Income and Wealth.** The market may be likened to a ballot-box, but there is plural voting as a result of inequality of income and wealth. To what extent is this inequality justifiable? In so far as it is thought to be excessive, what are the remedies?

(2) **Monopoly and Industrial Efficiency.** To what extent is it true that the operation of the price market is vitiated by monopolistic restrictions? Is there any truth in the charge that private enterprise is no longer enterprising? If such claims are valid, does the case for the market economy still hold?

(3) **Inflation.** Controls were necessary in war time partly because of inflation. Is there any danger of chronic inflation in peace time?

(4) **Mass Unemployment.** Planning of some kind is necessary to remove this scourge of

extreme *laissez faire*; but is physical planning necessary, or will liberal planning of the Keynesian variety suffice?

(5) **Foreign Trade.** This is the most difficult problem of all and it may be urged that controls should not be relaxed while the balance of payments presents such difficulties."

Part II diagnoses these problems, beginning with "Inequality of Income and Wealth," and following up with chapters on "Unemployment and Socialism" and "The British Balance of Payments," both of which are of primary importance. The opening paragraphs of the final chapter, "The Prospects for Private Enterprise," summarise the main conclusions.

Inconsistency of Marx

"If the social and political structure were determined by economic forces in the manner described by Karl Marx, there would be little reason to feel concern about the future of private enterprise. For his theory of economic determinism seems to imply a rationality in the course of events which ensures that institutions are adapted in a way appropriate, in some sense, to the need of the time.

"Human beings themselves may not be rational and may, indeed, fail completely to understand what is happening; but since the course of history is determined, in any case, not by ideas as to what is desirable but by more impersonal forces, the fallibility of human judgments is of only minor importance. Broadly speaking, that appears to be the theory, and if it were true capitalist economy with a moderate degree of state intervention could be regarded as 'deter-

mined' for as long ahead as could be foreseen.

"Admittedly an unreformed capitalism would not survive for long in the post-war world; in particular, heavy unemployment has caused so much suffering and resentment as to necessitate some change in the economic system. But if any serious attempt at diagnosis is made, it will be seen that such reforms do not require the abolition of private enterprise. On rational grounds, what is needed to prevent mass unemployment of the pre-war kind is a vigorous policy of financial stabilisation, combined with special measures to encourage the mobility of labour and to modify the location of industry.

"Similarly, the mitigation of inequality will not be achieved by nationalisation but rather by the continued use of progressive taxation. Even with regard to foreign trade, the most difficult of the post-war problems, socialisation will be no help at all but a serious hindrance, because of its adverse effect on industrial efficiency and flexibility.

Danger of Sluggishness

"Whether industry is socialised or not, it may be impossible to procure the imports necessary to maintain the standard of living and the level of employment—if only because the success of the export drive cannot be ensured by this country alone. But the danger of failure will be all the greater if the British economy is sluggish and insensitive, as it is only too likely to be if private enterprise has been abolished.

"It is perfectly true that the 'objective' factors, such as changing industrial techniques, exert a major influence on social development,

and if this observation falls somewhat short of originality, Marx was at least original in the emphasis he placed upon it. Without any question, he stressed the point too much, but it can be argued in his defence that it was necessary to correct a bias in the opposite direction and to criticise the view that society could be reorganised according to abstract ideas alone which might have little relation to reality.

"So far so good. The error lies in supposing that the ultimate response to changing conditions will necessarily be the right one; for this implies a kind of Economic Providence whose existence is not apparent except to the eye of faith. It is here that the 'human factor,' so inadequately treated by Marx, becomes important; the objective needs may be misconceived and the various policies misunderstood.

"Even if, in the end, the action taken proves successful in removing a specific evil, it may be that some alternative policy would have proved equally successful for the immediate purpose and would have been more satisfactory in its wider implications. There is no law of nature to prevent a country from jumping out of the frying-pan into the fire by resorting to communism as a cure for cyclical unemployment.

"The cure may work fairly well but it will be far worse than the disease; it is, I believe, a sober statement of fact that the working class would be better off even in an unreformed capitalist economy, which was subject to cyclical fluctuations, than it would be under the heel of a communist dictatorship.

"There is, of course, a third alternative. Such unemployment could be reduced if the major countries were to adopt what is often

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described as a Keynesian policy, and in this way reasonable security might be achieved without the sacrifice of equity which communism implies. The third alternative is the more desirable, but because of irrationality and ignorance it may not be adopted."

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**YEARBOOK OF FOOD AND AGRICULTURAL STATISTICS, 1948. Vol. II.
TRADE AND COMMERCE.**
F.A.O., Washington, 1949, 24/6

**YEARBOOK OF FOOD AND AGRICULTURAL STATISTICS, 1949. Vol. I.
PRODUCTION.**
(F.A.O., Washington, 1950, 24/6)
(Both available through H.M. Stationery Office).

These two volumes were issued simultaneously. F.A.O. should be congratulated on resuming publication of the trade series which were contained in the former Yearbook of the International Institute of Agriculture. Volume II contains 69 tables, showing the trade in agricultural products by countries during the years 1934-38, and for 1945, 1946 and 1947. For nine major commodities special tables are also given, showing trade by trade seasons.

The first volume of the 1949 Yearbook is for the first time, fully trilingual (English, French, Spanish). New crop

tables have been included on commodities (sorghum and millets, various pulses, cassava, sweet potatoes, bananas, figs, and dates) which are important in "under-developed" areas where statistical coverage is still very incomplete.

Other innovations which increase the value of the Yearbook are the inclusion of a section on land use, a fuller treatment of population, and the addition of new tables on the means of production (commercial fertilizers, tractors, and pesticides). Both volumes are indispensable reference-books, for all students of economic affairs.

PAPERS OF THE ROYAL COMMISSION ON POPULATION. Vol. II.
(H.M. Stationery Office, London, 1950, 8/-).

These papers represent various stages in the attempt to define and measure the level and trend of fertility in Britain. Although the general reader may be

content with the conclusions drawn in the report of the Commission, the student of demography will find these technical studies highly interesting and stimulating.

ECONOMIC HISTORY OF ENGLAND
H. O. Meredith (Pitman, London, 10/6)

This is the fifth edition of a standard text-book, and every previous edition since the first in 1910 has been reprinted several times. A book that stands up for 40 years needs no recommendation : it

is obviously doing a good job of work. It is enough to say that this is a new edition and not merely a re-print, and that it is brought up to the date of gas and electricity nationalisation.

GERMANY WHAT NOW ?
Basil Davidson (Frederick Muller, London, 12/6).

A thoroughly readable record, all the more valuable for having a critical eye on administration and ambitions on both sides of the iron curtain. The author

POTSDAM TO PARTITION
Geoffrey Cumberledge, 34/-).

was on the pre-war staff of *The Economist* and is now with the *New Statesman*, which sufficiently indicates his equipment and viewpoint.

ITALY FROM NAPOLEON TO MUSSOLINI
René Albrecht-Carrié (Columbia University Press, London, 1950, 34/-).

To some extent the title is misleading. The story does not end with Mussolini, for the purpose of the work is to set forth Italy's history as the background against which Italy's present problems must be studied if they are to be understood and

remedied. And we had all better understand Italy's problems since, to quote the author, "Italy is one of the major testing grounds of the competing ideologies of our time." Dr. Albrecht-Carrié knows and loves his Italy.

A CENTURY OF LIVERPOOL'S COMMERCE

W. A. Gibson Martin (Charles Burchall & Sons, Ltd., 17, James Street, Liverpool 2, 7/6).

This is the book of the Liverpool Chamber of Commerce's centenary. Founded in 1850, it has taken a considerable part in the growth of modern Liverpool. The author has done well the job that he was called upon to do, which inevitably means that there is rather more about personalities than anybody except a native of Liverpool wants to read. It has many a fascinating story and many

a quaint allusion. For instance a president in the 1850's thought there was no point in commenting on income tax (which, however, he regarded as "unjust in principle, odious in character and inquisitorial in its operation") because it was only a temporary tax. There is nothing more permanent than a temporary tax!

Worth Reading -

U.K. Mercantile Marine and its Contribution to the Balance of Payments. M. G. KENDALL, *Journal of Royal Statistical Society, Vol. CXIII, Part I, 1950.*

U.K. Labour Statistics. R. B. AINSWORTH, *Journal of Royal Statistical Society, Vol. CXIII, Part I, 1950.*

Foreign Private Capital in Italy : Possibilities and Conditions of Investment. *Bancaria, Rome, April, 1950.*

Development of Export Trade of European Industrial Products and its Financing. PASQUALE SARACENO, *Bancaria, Rome, March, 1950.*

Economic Classification of Agricultural Regions in Bengal. A. GHOSH, *Sankhya (Indian Journal of Statistics), Calcutta, March, 1950.*

Role of Science in the British Economy. R. L. MEIER, *Manchester School, May, 1950.*

Italian Economic Survey. *Published by the Association of Italian Joint Stock Companies, Rome, May/June, 1950.*

South Asia. Planning (P.E.P.) London, June 26, 1950. (A straightforward summary of problems with fairly obvious conclusions).

Effect of Exchange Depreciation on a Country's Export Price Level. J. J. POLAK and T. C. CHANG, *Staff Papers (International Monetary Fund) Washington, February, 1950.*

Outline of Post-War Course of Japanese Economy ; and Present Difficulties in Japanese Economy. *Fuji Bank Bulletin, Tokyo Vol. 1, No. 1, April, 1950.*

Benelux 1950. PROFESSOR P. KUIN, "Progress" (Unilever, Ltd., London), Summer, 1950. (Optimistic estimate of prospects by a former co-chairman of the Benelux Council of Economic Unification).

Norway's Recovery. LT.-COL. PAUL M. STRANDE, "Progress." (Unilever, Ltd., London, Summer, 1950. (Optimistic estimate of prospects by a former co-chairman of the Benelux Council of Economic Unification).

Benelux : The Netherlands' Point of View. *The Times Review of Industry, London, June, 1950.* (Emphasises the difficulties but insists that they can be overcome).

Rising German Steel Output. *The Times Review of Industry, London, June, 1950.*

Civil Aviation (In Australia) : A Decade of Progress. *Monthly Summary of National Bank of Australia, Ltd., Melbourne, June 10, 1950.*

The Presentation of the National Accounts. H. A. BENSON, *Three Banks Review, London and Manchester, June, 1950.*

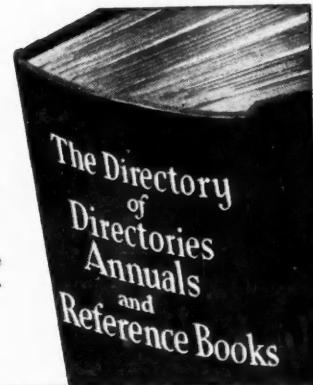
BRIGHT BOYS

When economists meet the talk is not always of statistics or the drearier Government reports. Or if it is, the economists sometimes take time off to scribble witticisms on small pieces of paper. One of these, found, perhaps in the wastepaper basket in the headquarters of a nationalised industry, bore these two sentences : "Monnet is the root of all evil," and "To err is Schuman."

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